Online game maker Zynga prices IPO at $10 a share

December 16 2011, By BARBARA ORTUTAY and RYAN NAKASHIMA , AP Business Writers

In this Oct. 11, 2011 file photo, Zynga CEO Mark Pincus speaks at a Zynga event, in San Francisco. Founded in 2007 and named after CEO Mark Pincus' dog, Zynga Inc. follows online deals site Groupon Inc. and professional network LinkedIn Corp. in going public. (AP Photo/Jeff Chiu, File)

Zynga is poised to harvest some cold hard cash in its initial public offering. Who knew that selling virtual cows and digital corn on Facebook would create a $7 billion company?

The online game developer best known for "FarmVille" priced its initial public offering late Thursday at $10 per share.

That's at the top of its expected range of $8.50 to $10, a sign that investors are eager to get a piece of the latest in a series of high-profile tech IPOs this year. Zynga is selling 100 million shares and giving its underwriters the right to buy another 15 million shares. The company stands to raise slightly more than $1 billion from the offering, before subtracting for expenses.

Thursday's pricing gives San Francisco-based Zynga a market value of about $7 billion.

Zynga will begin trading Friday on the Nasdaq Stock Market under the ticker symbol "ZNGA." That's when "Main Street" investors will get a chance to buy the stock. The offering rounds out a busy week for IPOs, the likes of which the market hasn't seen since before the 2008 financial meltdown.

Founded in 2007 and named after CEO Mark Pincus' dog, Zynga Inc. follows online deals site Groupon Inc. and professional network LinkedIn Corp. in going public. A bevy of smaller Internet startups, such as reviews site Angie's List Inc. and Pandora Media Inc., have also taken the plunge. They're the soup, salad and appetizer to the main course: Facebook's public debut, expected sometime after April. The social network could rake in as much as $10 billion.

Pincus and Zynga's 2,300 employees have built a business charging small amounts of money - a few cents, sometimes a couple of dollars - for virtual items in online games. The games themselves free to play. These items range from crops in "Farmville" to buildings in "CityVille," its most popular Facebook game. This so-called "free-to-play" business model assumes that most people won't want to pay anything to build virtual castles in "CastleVille" or take down rival mob bosses in "Mafia Wars."

But with a large enough player base and a few loyal spenders, Zynga was able to earn a net income of $90.6 million in 2010. Though not unheard of, it's unusual for a tech startup to turn a profit before going public.

Zynga has been criticized for being too dependent on Facebook and its 800 million users. Facebook takes 30 percent cut from what people spend on outside applications through its site. In the July-September period, 93 percent of Zynga's revenue was generated through the world's largest online social network.

That said, there's no denying that Facebook's vast user base and widespread popularity are directly responsible for Zynga's meteoric rise. As of Thursday, Zynga's games had more than 223 million monthly users on Facebook. If those gamers could form their own nation, its population would be roughly on par with Indonesia and Brazil.

Zynga's growth has also been helped by the simple fact that its games are addictive. Just last week, actor Alec Baldwin got booted off a plane because he wouldn't stop playing "Words With Friends," Zynga's Scrabble-inspired mobile phone game. Zynga is focusing on mobile gaming as a way to expand beyond Facebook.

Baldwin's flight fiasco offers proof that mobile games present the biggest growth opportunity for Zynga, according to Wedbush analyst Michael Pachter. International expansion and getting people who already play Zynga games to spend money are other ways the company can grow.

Zynga is not without rivals. Its main competitor on Facebook is Electronic Arts Inc., the more old-school video game publisher best known for console games such as "Madden" and "The Sims." Recently, EA has been focusing on its mobile and online business. Its Facebook version of "The Sims" has created a healthy rivalry with Zynga.

Though not a direct competitor, another similar company is Japan's

Nexon Co., which went public on the Tokyo Stock Exchange this week, raising $1.2 billion. Originally from South Korea, Nexon pioneered the free-to-play revenue model that has led to Zynga's success. But where Zynga caters to the Facebooked masses, Nexon's focus is on more complicated games that can take hours, not minutes to crack. Valued at $7.2 billion after Wedneday's IPO, Nexon has about 77 million monthly active users.

Owen Mahoney, chief financial officer of Nexon and a former EA executive, believes several trends are contributing to the popularity of gaming companies like Nexon and Zynga. Namely, higher broadband Internet speeds are making it easier to download games; consumers are looking to try before they buy; and they are spending money in smaller amounts per purchase - not unlike when music fans began buying individual digital songs, as opposed to entire albums.

"The same forces that affected the entertainment business are affecting the video game business," Mahoney said.

Not everyone is big on Zynga, though. "FarmVille" and its ilk annoy some Facebook users who get tired of their crop-harvesting friends asking for help with their virtual farms.

There are naysayers on Wall Street too. Sterne Agee analyst Arvind Bhatia took the unusual step of putting an "Underperform" rating on Zynga this week, days before the company was scheduled to go public. The analyst set a price target of $7 for Zynga's yet-to-be traded stock, below even the low end of its expected IPO pricing range, citing concerns about the company's growth rate. Bhatia said he wanted to provide an "independent view" of Zynga at a time when its bankers and the company will be selling the deal to clients.

"It's not to say the stock can't do well initially," he said.

Wedbush's Pachter, meanwhile, said it's "really premature" to call the death of a four-year-old industry.

"No one has enough data to say growth is stalled," he said.